

EMPLOYEES' RETIREMENT SYSTEM OF THE
PUERTO RICO ELECTRIC POWER AUTHORITY

BOARD OF TRUSTEES
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November 17, 2022

Mr. David A. Skeel
Chairman
Financial Oversight and Management
Board for Puerto Rico

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VIA EMAIL

**RE: Counterproposal for New Plan for All Active Members and Comparison with the
Fiscal Control Board Proposal**

Dear Mr. Skeel:

Through this correspondence, we acknowledge receipt of the offer made on August 9, 2022, through the Financial Oversight and Management Board for Puerto Rico's ("Oversight Board") counsel. The Board of Trustees of the Employees Retirement System of the Puerto Rico Electric Power Authority ("SREAEE") and its advisors have carefully evaluated the proposal, and we formally reject it. Unfortunately, the proposal does not comply with current legal parameters or the available resources to protect the interests of retirees and active employees participating in the SREAEE. Nonetheless, our counterproposal does include some aspects of your original proposal and we are available to confer on this matter.

Therefore, we propose a counteroffer in the hopes we can advance a negotiation process that culminates in SREAEE consenting to restructuring its claim and voting in favor of a confirmable Plan of Adjustment. This offer contemplates keeping pensions through a pay-as-you-go mechanism and a viable reorganization of SREAEE to protect active participants. It is founded on all the current data and validated by our actuaries and consultants. Thus, its assumptions and results are reliable.

Please note that this is a comprehensive offer, not subject to fractioning. Its parts are interdependent. Therefore, the rejection of any one of its components constitutes the rejection of all its terms and conditions. In addition, SREAEE reserves the right to withdraw this offer at any time, if the Commonwealth of Puerto Rico approves enabling legislation under Section 314 of PROMESA that addresses the protection of pensioners and participants of SREAEE.

What follows is SREAEE's counterproposal and a comparison of the separate plan and the pay-as-you-go cost for current retirees with the Oversight Board's proposal.

Separate Plan for System Active Members as of June 30, 2023

The Board of Trustees requested its actuary and financial advisors to prepare a study in relation to the creation of a separate retirement plan for SREAEE's active members. For purposes of this study, the following assumptions were made:

- The new plan would only include active members of SREAEE as of June 30, 2023. These members would transfer to the new plan on that date.
- The new plan benefits are the same as the benefits of the current Retirement System. That is, it assumes the members would receive the same benefits as under the current Retirement System except payable from a separate plan.
- The actuarial liabilities with respect to the active members would be transferred from the current Retirement System to the new plan.
- A new, separate account or trust would be established for the new plan.
- The future member and employer contributions would be deposited and invested in the account or trust of the new plan.

Data Used in the Cavanaugh Macdonald Study

Cavanaugh Macdonald prepared the study using the data provided by the Retirement System on October 20, 2022, for SREAEE's active members as of October 2022. Below is a summary of the data.

Data Summary for Anticipated Active Members as of June 30, 2023

Number	Payroll	Average Pay	Average Age	Average Service	Accumulated Member Contributions with Interest
3,661	\$153,736,210	\$41,993	50.9	20.4	\$398,961,453

Estimated Costs of the New Plan

The cost of the new plan is estimated under the following three scenarios:

- A. Without the payment to the new plan of funds to finance the actuarial accrued liability. Under this scenario the new plan begins with \$0 assets and an unfunded actuarial accrued liability equal to the actuarial accrued liability.
- B. With an initial payment by the employer of 50% of the actuarial accrued liability.

- C. With an initial payment by the employer of 100% of the actuarial accrued liability. Under this scenario the new plan begins with an unfunded actuarial accrued liability of \$0. Therefore, the only plan contribution would be by the members and by the employer to pay for the benefits members accrue annually ("normal cost").

In estimating the costs of the new plan, the information provided by Cavanaugh Macdonald in the preparation of its study was used. The actuarial assumptions and methods are the same as with the current Retirement System, including the assumed rate of return of 5.75% and the continuation of the amortization period (17 years as of June 30, 2023) for the amortization of the unfunded actuarial accrued liability, if applicable. In addition, it is assumed that member contributions to the new plan would be at the same rate as with the current Retirement System. In the following table is an illustration of the costs of the new plan for active members as of June 30, 2023.

Employees' Retirement System of the Puerto Rico Electric Power Authority
Scenarios of Estimated Costs of the New Plan for Active Employees as of June 30, 2023
(\$'s millions)¹

		(A) Without Initial Contribution to the New Plan to Finance the Actuarial Accrued Liability	(B) With Initial Contribution to the New Plan to Finance 50% of the Actuarial Accrued Liability	(C) With Initial Contribution to the New Plan to Finance 100% of the Actuarial Accrued Liability
(1)	Actuarial Accrued Liability	\$771.5	\$771.5	\$771.5
(2)	Assets – Contribution to Fund the Actuarial Accrued Liability	\$0.0	\$385.8	\$771.5
(3)	Unfunded Actuarial Accrued Liability (1) – (2)	\$771.5	\$385.7	\$0.0
Estimated Contributions for Fiscal Years 2024 and 2025				
(1)	Normal Cost	\$27.6	\$27.6	\$27.6
(2)	Payment for the Unfunded Actuarial Accrued Liability	\$72.3	\$36.2	\$0.0
(3)	Interest Adjustment for Monthly Contributions	\$3.1	\$2.0	\$0.8
(4)	Total Contribution Amount (1) + (2) + (3)	\$103.0	\$65.8	\$28.4
	Estimated Member Contribution	\$18.5	\$18.5	\$18.5
	Estimated Employer Contribution	\$84.5	\$47.3	\$9.9
	Average Member Contribution Rate	12.01%	12.01%	12.01%
	Employer Contribution Rate	54.98%	30.77%	6.44%
	Interest/Return Rate	5.75%	5.75%	5.75%
	Amortization Period (Years Remaining)	17	17	17

¹ Results based on the actuarial study prepared by Cavanaugh Macdonald dated November 10, 2022.

Retirement System Alternative and Comparison with the Oversight Board's Proposal

The current Retirement System is projected to have no assets to pay benefits in the coming year. Without assets to pay benefits the Retirement System becomes a "pay-as-you-go" plan. That is, the employer will have to make a monthly contribution to pay the benefits of retired members since there will not be sufficient assets in the SREAE's trust.

After the SREAE's assets are depleted, the Oversight Board proposes to pay the pensions for current and future retirees through a "pay-as-you-go" mechanism. This proposal includes:

- Freezing accrued benefits for active System members.
- The elimination of future pension increases every three years.
- The elimination of the summer and Christmas bonuses for active members.

The alternative under consideration by the Board of Trustees includes the "pay-as-you-go" payment of pensions to current retirees with the elimination of future pension increases every three years. For active members, a separate plan would be maintained without any changes in benefits – as presented above – and financed by member and employer contributions.

Below, you will find a comparison of the projected costs under the Oversight Board's proposal and the SREAE alternative under the three scenarios presented above for the separate plan for active members. Additionally, enclosed are graphs comparing the projected costs. The projected costs of the Oversight Board's proposal are based on the study of the proposal prepared by Ernst & Young. The projection of the costs of SREAE alternative is based on the information provided by Cavanaugh Macdonald in its study from November 10, 2022. The costs projection of the active members plan assumes there will be no new plan members. That is, the plan begins with approximately 3,600 members and that number declines over time as those members retire or terminate from service.

Scenario (A)
Cost Comparison of the
Fiscal Control Board Proposal and the Retirement System Alternative
Without Initial Contribution to the New Plan to Finance the Actuarial Accrued Liability
(\$'s millions)

Fiscal Year	Fiscal Control Board Proposal	Retirement System Alternative			Fiscal Control Board Projected Costs Minus Retirement System Alternative Projected Costs
	"Paygo" Cost Projections for Current and Future Retirees According to Ernst & Young Calculation	Projection of Employer Costs for the Active Members Plan	"Paygo" Cost Projections for Current Retirees as of June 30, 2023	Projection of Total Costs of Retirement System Alternative	
2024	\$280.7	\$84.5	\$275.5 ¹	\$360.0	(\$79.3)
2025	\$278.0	\$84.1	\$269.3	\$353.4	(\$75.4)
2026	\$274.6	\$83.6	\$262.8	\$346.4	(\$71.8)
2027	\$270.8	\$83.1	\$256.2	\$339.3	(\$68.5)
2028	\$266.1	\$82.5	\$249.2	\$331.7	(\$65.6)
2029	\$260.9	\$82.0	\$242.1	\$324.1	(\$63.2)
2030	\$255.1	\$81.4	\$234.9	\$316.3	(\$61.2)
2031	\$249.3	\$80.9	\$227.3	\$308.2	(\$58.9)
2032	\$242.6	\$80.3	\$219.6	\$299.9	(\$57.3)
2033	\$235.7	\$79.8	\$211.8	\$291.6	(\$55.9)
2034	\$228.4	\$79.2	\$203.9	\$283.1	(\$54.7)
2035	\$221.0	\$78.6	\$195.8	\$274.4	(\$53.4)
2036	\$213.4	\$78.1	\$187.8	\$265.9	(\$52.5)
2037	\$205.6	\$77.6	\$179.6	\$257.2	(\$51.6)
2038	\$197.8	\$77.2	\$171.4	\$248.6	(\$50.8)
2039	\$189.8	\$76.9	\$163.2	\$240.1	(\$50.3)
2040	\$181.9	\$76.5	\$155.1	\$231.6	(\$49.7)
2041	\$173.9	\$1.8	\$147.0	\$148.8	\$25.1
2042	\$165.9	\$1.5	\$139.0	\$140.5	\$25.4
2043	\$158.1	\$1.3	\$131.1	\$132.4	\$25.7
2044	\$150.4	\$1.1	\$123.3	\$124.4	\$26.0
2045	\$142.8	\$0.9	\$115.7	\$116.6	\$26.2
2046	\$135.3	\$0.8	\$108.2	\$109.0	\$26.3
2047	\$127.9	\$0.7	\$100.9	\$101.6	\$26.3
2048	\$120.6	\$0.6	\$93.8	\$94.4	\$26.2
2049	\$113.4	\$0.5	\$86.9	\$87.4	\$26.0
2050	\$106.2	\$0.4	\$80.2	\$80.6	\$25.6
2051	\$99.2	\$0.3	\$73.7	\$74.0	\$25.2
2052	\$92.3	\$0.2	\$67.4	\$67.6	\$24.7
2053	\$85.6	\$0.2	\$61.4	\$61.6	\$24.0
2054	\$79.0	\$0.1	\$55.7	\$55.8	\$23.2
2055	\$72.7	\$0.1	\$50.2	\$50.3	\$22.4
2056	\$66.5	\$0.1	\$45.0	\$45.1	\$21.4
2057	\$60.6	\$0.0	\$40.2	\$40.2	\$20.4
2058	\$54.9	\$0.0	\$35.6	\$35.6	\$19.3
2059	\$49.5	\$0.0	\$31.4	\$31.4	\$18.1
2060	\$44.4	\$0.0	\$27.6	\$27.6	\$16.8
Total Savings (Cost) of Retirement System Alternative					(\$545.8)

¹ In addition, there is an estimated refund of member contributions of \$51.3 million

Scenario (B)
Cost Comparison of the
Fiscal Control Board Proposal and the Retirement System Alternative
With Initial Contribution to the New Plan of \$385.8 Million to Finance the Actuarial Accrued Liability
(\$'s millions)

Fiscal Year	Fiscal Control Board Proposal	Retirement System Alternative			Fiscal Control Board Projected Costs Minus Retirement System Alternative Projected Costs
	"Paygo" Cost Projections for Current and Future Retirees According to Ernst & Young Calculation	Projection of Employer Costs for the Active Members Plan	"Paygo" Cost Projections for Current Retirees as of June 30, 2023	Projection of Total Costs of Retirement System Alternative	
2024	\$280.7	\$47.3	\$275.5 ¹	\$322.8	(\$42.1)
2025	\$278.0	\$46.9	\$269.3	\$316.2	(\$38.2)
2026	\$274.6	\$46.4	\$262.8	\$309.2	(\$34.6)
2027	\$270.8	\$45.9	\$256.2	\$302.1	(\$31.3)
2028	\$266.1	\$45.3	\$249.2	\$294.5	(\$28.4)
2029	\$260.9	\$44.8	\$242.1	\$286.9	(\$26.0)
2030	\$255.1	\$44.2	\$234.9	\$279.1	(\$24.0)
2031	\$249.3	\$43.7	\$227.3	\$271.0	(\$21.7)
2032	\$242.6	\$43.1	\$219.6	\$262.7	(\$20.1)
2033	\$235.7	\$42.6	\$211.8	\$254.4	(\$18.7)
2034	\$228.4	\$42.0	\$203.9	\$245.9	(\$17.5)
2035	\$221.0	\$41.4	\$195.8	\$237.2	(\$16.2)
2036	\$213.4	\$40.9	\$187.8	\$228.7	(\$15.3)
2037	\$205.6	\$40.4	\$179.6	\$220.0	(\$14.4)
2038	\$197.8	\$40.0	\$171.4	\$211.4	(\$13.6)
2039	\$189.8	\$39.7	\$163.2	\$202.9	(\$13.1)
2040	\$181.9	\$39.3	\$155.1	\$194.4	(\$12.5)
2041	\$173.9	\$1.8	\$147.0	\$148.8	\$25.1
2042	\$165.9	\$1.5	\$139.0	\$140.5	\$25.4
2043	\$158.1	\$1.3	\$131.1	\$132.4	\$25.7
2044	\$150.4	\$1.1	\$123.3	\$124.4	\$26.0
2045	\$142.8	\$0.9	\$115.7	\$116.6	\$26.2
2046	\$135.3	\$0.8	\$108.2	\$109.0	\$26.3
2047	\$127.9	\$0.7	\$100.9	\$101.6	\$26.3
2048	\$120.6	\$0.6	\$93.8	\$94.4	\$26.2
2049	\$113.4	\$0.5	\$86.9	\$87.4	\$26.0
2050	\$106.2	\$0.4	\$80.2	\$80.6	\$25.6
2051	\$99.2	\$0.3	\$73.7	\$74.0	\$25.2
2052	\$92.3	\$0.2	\$67.4	\$67.6	\$24.7
2053	\$85.6	\$0.2	\$61.4	\$61.6	\$24.0
2054	\$79.0	\$0.1	\$55.7	\$55.8	\$23.2
2055	\$72.7	\$0.1	\$50.2	\$50.3	\$22.4
2056	\$66.5	\$0.1	\$45.0	\$45.1	\$21.4
2057	\$60.6	\$0.0	\$40.2	\$40.2	\$20.4
2058	\$54.9	\$0.0	\$35.6	\$35.6	\$19.3
2059	\$49.5	\$0.0	\$31.4	\$31.4	\$18.1
2060	\$44.4	\$0.0	\$27.6	\$27.6	\$16.8
Total Savings (Cost) of Retirement System Alternative					\$86.6

¹ In addition, there is an estimated refund of member contributions of \$51.3 million

Scenario (C)
Cost Comparison of the
Fiscal Control Board Proposal and the Retirement System Alternative
With Initial Contribution to the New Plan of \$771.5 Million to Finance the Actuarial Accrued Liability
(\$'s millions)

Fiscal Year	Fiscal Control Board Proposal	Retirement System Alternative			Fiscal Control Board Projected Costs Minus Retirement System Alternative Projected Costs
	"Paygo" Cost Projections for Current and Future Retirees According to Ernst & Young Calculation	Projection of Employer Costs for the Active Members Plan	"Paygo" Cost Projections for Current Retirees as of June 30, 2023	Projection of Total Costs of Retirement System Alternative	
2024	\$280.7	\$9.9	\$275.5 ¹	\$285.4	(\$4.7)
2025	\$278.0	\$9.6	\$269.3	\$278.9	(\$0.9)
2026	\$274.6	\$9.1	\$262.8	\$271.9	\$2.7
2027	\$270.8	\$8.6	\$256.2	\$264.8	\$6.0
2028	\$266.1	\$8.0	\$249.2	\$257.2	\$8.9
2029	\$260.9	\$7.5	\$242.1	\$249.6	\$11.3
2030	\$255.1	\$6.9	\$234.9	\$241.8	\$13.3
2031	\$249.3	\$6.4	\$227.3	\$233.7	\$15.6
2032	\$242.6	\$5.8	\$219.6	\$225.4	\$17.2
2033	\$235.7	\$5.3	\$211.8	\$217.1	\$18.6
2034	\$228.4	\$4.7	\$203.9	\$208.6	\$19.8
2035	\$221.0	\$4.1	\$195.8	\$199.9	\$21.1
2036	\$213.4	\$3.6	\$187.8	\$191.4	\$22.0
2037	\$205.6	\$3.1	\$179.6	\$182.7	\$22.9
2038	\$197.8	\$2.7	\$171.4	\$174.1	\$23.7
2039	\$189.8	\$2.4	\$163.2	\$165.6	\$24.2
2040	\$181.9	\$2.0	\$155.1	\$157.1	\$24.8
2041	\$173.9	\$1.8	\$147.0	\$148.8	\$25.1
2042	\$165.9	\$1.5	\$139.0	\$140.5	\$25.4
2043	\$158.1	\$1.3	\$131.1	\$132.4	\$25.7
2044	\$150.4	\$1.1	\$123.3	\$124.4	\$26.0
2045	\$142.8	\$0.9	\$115.7	\$116.6	\$26.2
2046	\$135.3	\$0.8	\$108.2	\$109.0	\$26.3
2047	\$127.9	\$0.7	\$100.9	\$101.6	\$26.3
2048	\$120.6	\$0.6	\$93.8	\$94.4	\$26.2
2049	\$113.4	\$0.5	\$86.9	\$87.4	\$26.0
2050	\$106.2	\$0.4	\$80.2	\$80.6	\$25.6
2051	\$99.2	\$0.3	\$73.7	\$74.0	\$25.2
2052	\$92.3	\$0.2	\$67.4	\$67.6	\$24.7
2053	\$85.6	\$0.2	\$61.4	\$61.6	\$24.0
2054	\$79.0	\$0.1	\$55.7	\$55.8	\$23.2
2055	\$72.7	\$0.1	\$50.2	\$50.3	\$22.4
2056	\$66.5	\$0.1	\$45.0	\$45.1	\$21.4
2057	\$60.6	\$0.0	\$40.2	\$40.2	\$20.4
2058	\$54.9	\$0.0	\$35.6	\$35.6	\$19.3
2059	\$49.5	\$0.0	\$31.4	\$31.4	\$18.1
2060	\$44.4	\$0.0	\$27.6	\$27.6	\$16.8
Total Savings (Cost) of Retirement System Alternative					\$720.8

¹ In addition, there is an estimated refund of member contributions of \$51.3 million

For the first seventeen years of the projection the costs of SREAAE's alternative for scenarios (A) and (B) are greater in comparison to the costs of the Oversight Board's proposal. This additional cost is because scenarios (A) and (B) include contributions to amortize the unfunded actuarial accrued liability of the active members' plan. Scenario (C) produces projected savings under SREAAE's alternative in comparison to the Oversight Board's proposal. Scenario (C) assumes an initial contribution of \$771.5 million to fund the actuarial accrued liability and establishes the new plan with an unfunded actuarial accrued liability of \$0. Therefore, scenario (C) does not require a contribution to amortize the unfunded actuarial accrued liability.

We are available to meet and confer on this matter with the Oversight Board and its advisors.

Cordially,



José Rivera Rivera
President

Board of Trustees

Employees Retirement System of Puerto Rico Electric Power Authority

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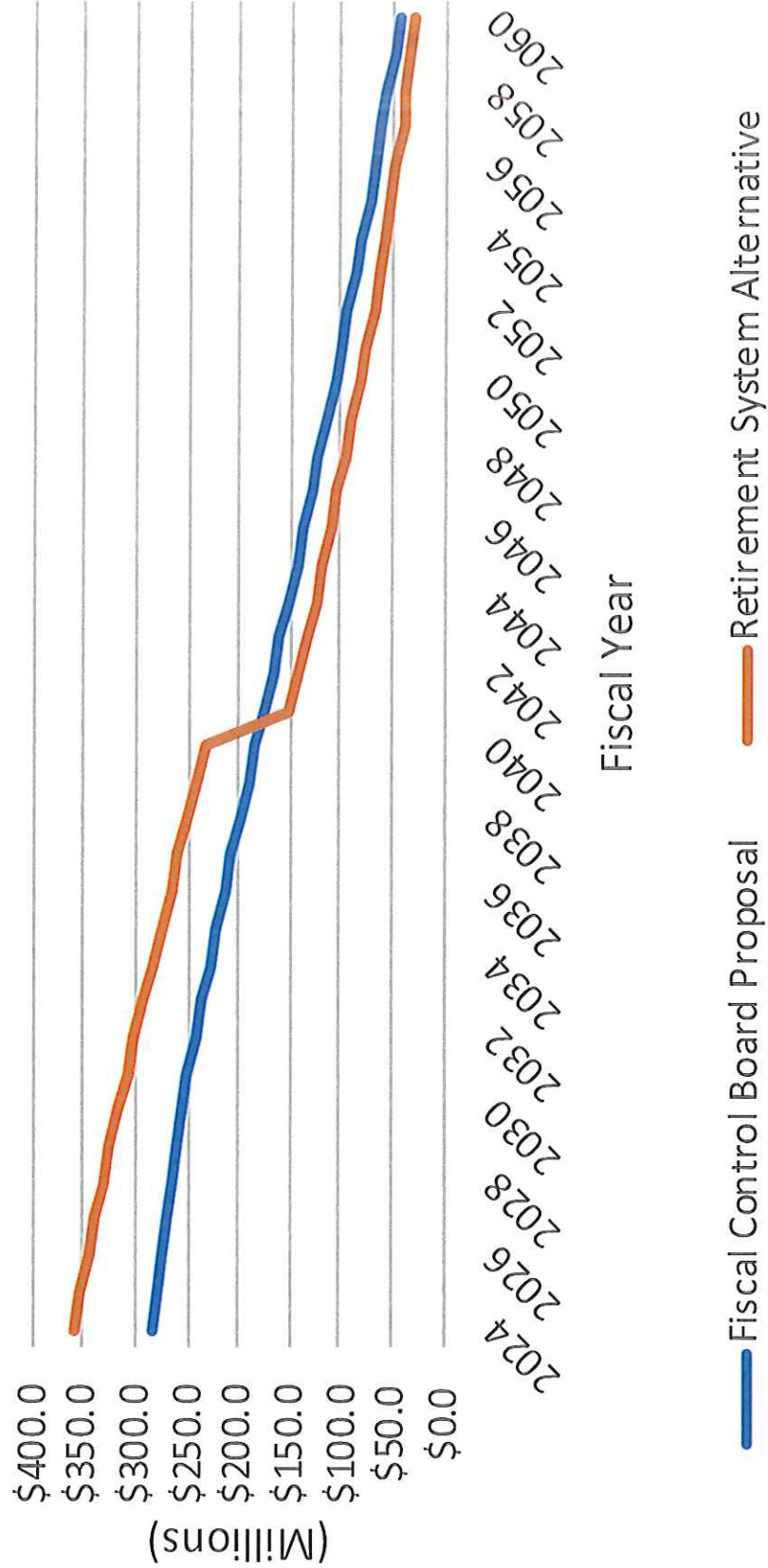
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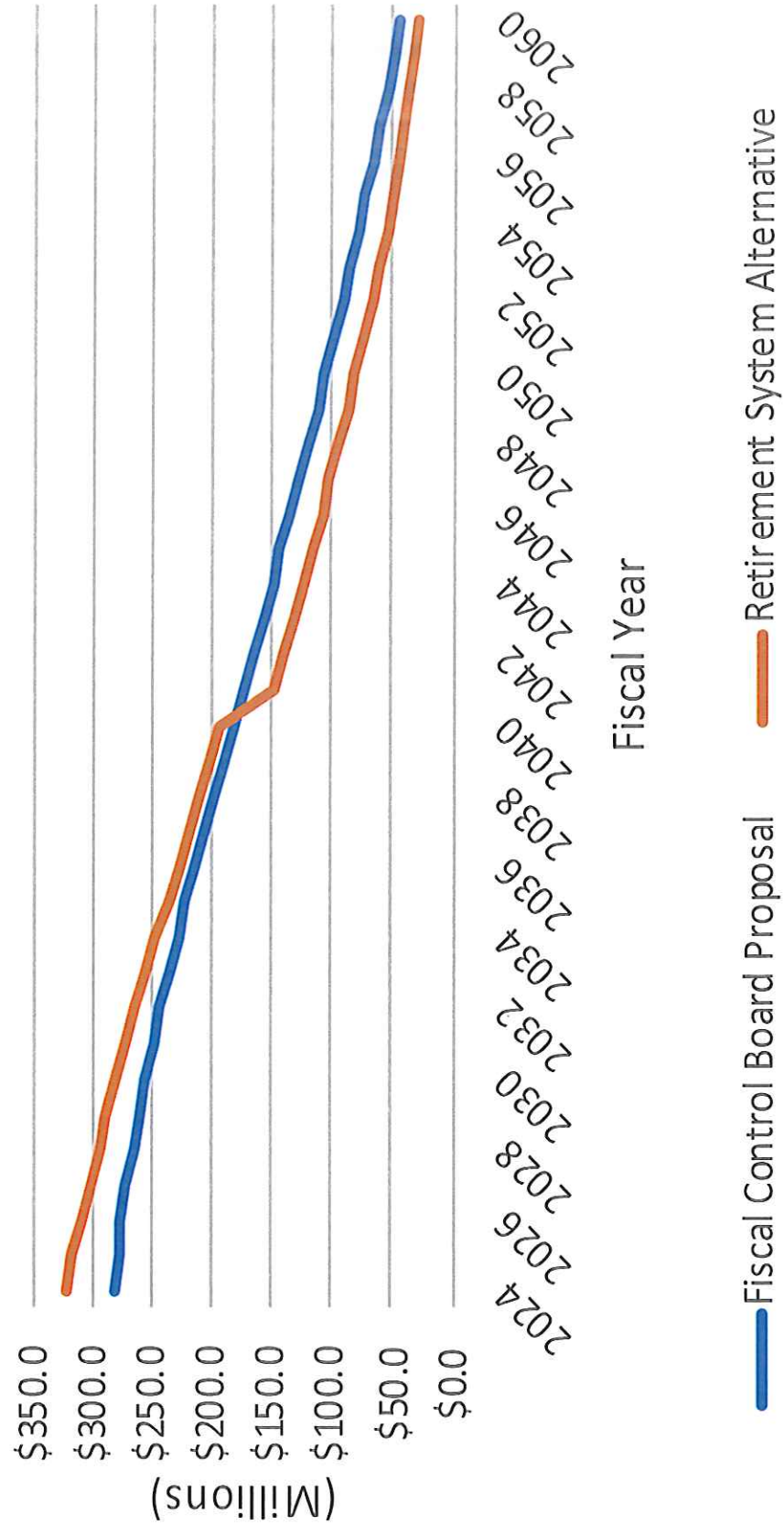
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Attachments.

Employees' Retirement System of PREPA Scenario (A) - Comparison of Costs



Employees' Retirement System of PREPA Scenario (B) - Comparison of Costs



Employees' Retirement System of PREPA Scenario (C) - Comparison of Costs

